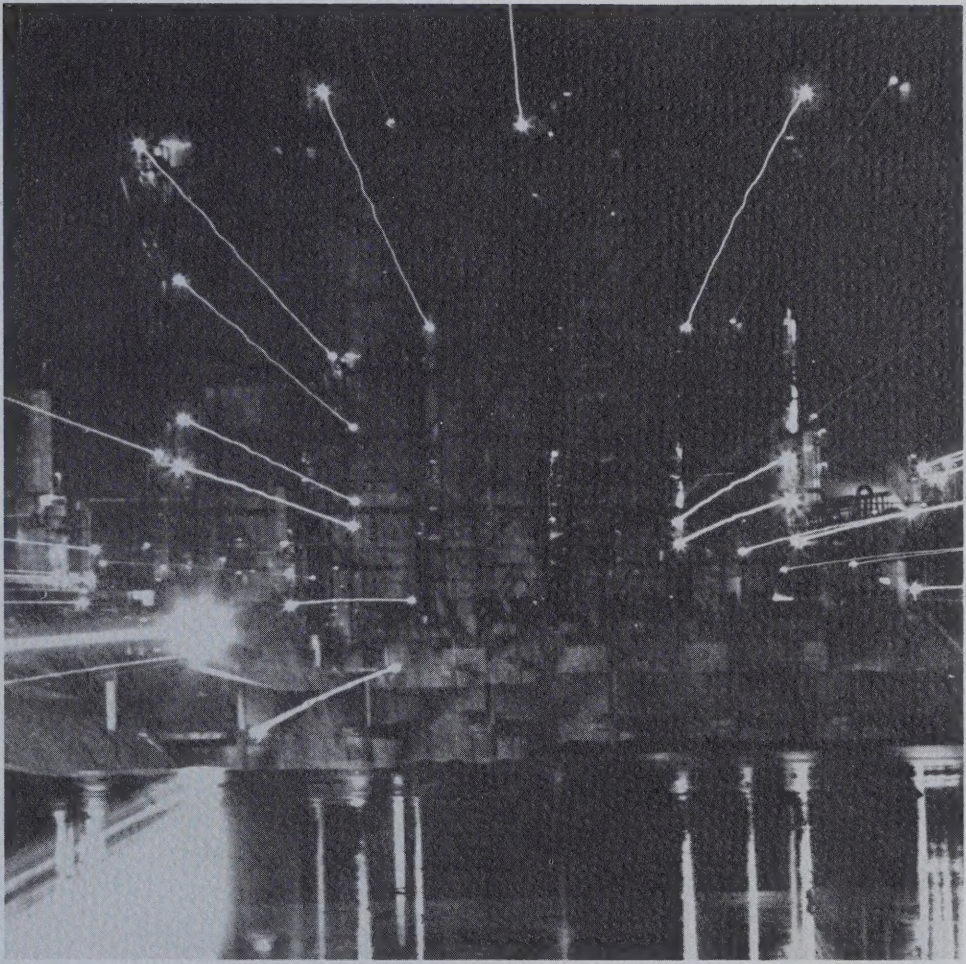
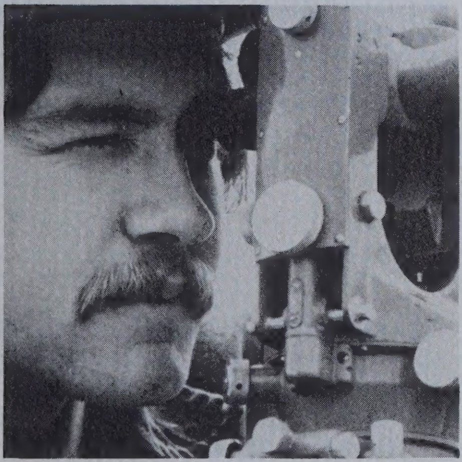
Great Canadian Oil Sands Limited

Annual Report 1977





Directors

Theodore A. Burtis, Radnor, Pa.
President, Sun Company, Inc.

Stanley A. Cowtan, Edmonton
President and Chief Officer of the Company

Kenneth F. Heddon, Toronto
Chairman of the Board of the Company

Ross A. Hennigar, Toronto
President, Sun Oil Company Limited

Gordon E. Hillhouse, Radnor, Pa.
Executive Vice-President, Sun Company, Inc.

F. Newton Hughes, Edmonton
Chairman of the Board Capwest Capital Services Ltd.

Ardagh S. Kingsmill, Toronto
Partner, Tilley, Carson & Findlay

Robert McClements, Jr., Radnor, Pa.
Executive Vice-President, Sun Company, Inc.

Dudley M. McGeer, Toronto
Vice-President, Administration Sun Oil Company Limited

William S. McGregor, Edmonton
President, Numac Oil & Gas Ltd.

John E. Poole, Edmonton
Company Director

Bruce W. Watson, Calgary
President, Canadian Homestead Oils Limited

Officers

Kenneth F. Heddon
Chairman of the Board

Ross A. Hennigar
Deputy Chairman of the Board

Stanley A. Cowtan
President and Chief Officer

Joseph S. Camp, Fort McMurray
Vice-President, Operations

William L. Oliver, Edmonton
Vice-President, Corporate Affairs

Dudley M. McGeer
Vice-President, Administration

Ardagh S. Kingsmill
Secretary

Anthony A. L. Wright, Toronto
Treasurer and Assistant Secretary

Joseph E. Wolfe, Edmonton
Assistant Secretary and Assistant Treasurer

Edmonton Office

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Telephone: (403) 426-7440

Toronto Office

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Transfer Agent and Registrar

The Canada Trust Company
110 Yonge Street, Toronto, Ontario
10150 – 100th Street, Edmonton, Alberta
239 – 8th Avenue S.W., Calgary, Alberta

General Counsel

Tilley, Carson & Findlay
Toronto, Ontario

Annual Meeting

The Annual Meeting of Shareholders will be held in the Alberta Room "C" of the Chateau Lacombe, 101 Street at Bellamy Hill, Edmonton, Alberta at 10:00 A.M. (Edmonton time) on Thursday, April 20, 1978.

FRONT COVER — A surrealistic view of the cokers, a jumble of bucketwheel teeth and the people who make it all come together, portray the link between man and the tools which wring energy from the oil sands.

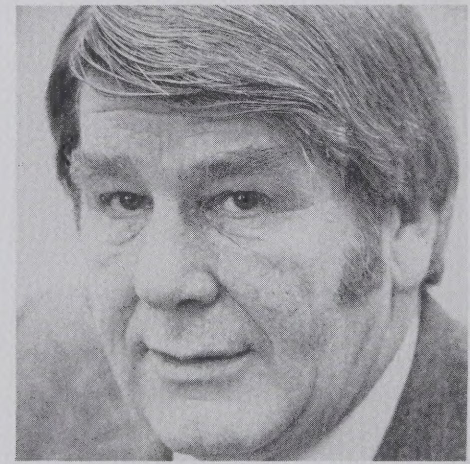
Highlights of the year

	1977	1976	%
	(Dollars in thousands)		*Change*
Financial			
Revenues	**$180,558**	$159,827	13
Profit before extraordinary item	**11,385**	9,012	26
Net profit for the year	**12,917**	11,962	8
Cash flow from operations	**30,476**	27,190	12
Capital expenditures	**25,343**	15,124	68
Total assets	**350,696**	331,884	6
Accumulated deficit	**54,322**	67,239	
Operating			
Average daily production of synthetic crude (barrels)	**44,914**	47,750	(6)
Overburden removed (thousands of cubic yards)	**11,946**	12,051	(1)
Oil sands mined (thousands of short tons)	**35,295**	36,068	(2)

A helicopter, used to both seed and fertilize, aids the forestation program being undertaken on the tailings pond dyke.

Report to the Shareholders

Kenneth F. Heddon
Chairman of the Board of Directors



Stanley A. Cowtan, President

The year in review

Your company's performance in 1977 was primarily influenced by two events. On the one hand, the government-instituted general crude oil price increases, which went into effect on January 1 and July 1, helped to maintain profitability and increase revenues compared to 1976. On the other hand, profit improvement was restrained by a drop in synthetic crude production due largely to the biennial maintenance shutdown last spring.

Profit in 1977 was $12.9 million, up slightly from the $12 million recorded in 1976. The flat profit picture was due mainly to a six per cent decline in synthetic crude production to 16.4 million barrels (44,900 barrels daily) from 17.5 million barrels in 1976 (47,750 barrels daily). Included in the 1977 profit is an extraordinary gain of $1.5 million. This compares to an extraordinary gain of $3 million for the previous year. The extraordinary gains result from a reduction of the income tax provision.

Revenues in 1977 totalled $181 million, compared to $160 million in 1976. Cash generation in 1977 was sufficient to bring about a modest drop in short-term debt and improve the working capital position. At the same time, capital spending reached $25 million with major outlays being made for mobile mine equipment, improvements to the process area, and employee housing.

In 1977, the average selling price per barrel of synthetic crude was $10.89, approximately $2.00 over 1976. Though this brought about an improved financial situation, it should be noted that your company, at year-end, had a deficit of $54.3 million. Moreover, Sun Oil Company Limited continued to waive lease royalties which in 1977 would have amounted to $13.1 million. Neither were any dividends paid on the preferred stock. If the full seven per cent annual preferred stock dividend had been paid, it would have totalled $11.6 million.

Expenses in 1977 rose some 12 per cent, partially due to inflationary pressures. Increases occurred particularly with respect to crown royalties, maintenance, and the biennial shutdown. The shutdown, a necessity for proper maintenance procedure, originally was scheduled for 21 days, but was extended to 26 days. A boiler failure resulted in a complete power outage and an emergency shutdown of the plant four days prior to the scheduled turnaround. Consequently, the co-ordination of manpower, equipment availability, and material deliveries was upset permitting only two of the four days to be used effectively on shutdown work. Making provision for a tie-in of the plant with the Alberta Power electric grid extended the shutdown an additional two days. When the tie-in is completed in 1978, it will reduce the plant's vulnerability to electrical failure.

After start-up, production was limited to approximately 30 per cent of capacity for a period of about eight days while one of the scheduled turbogenerator overhauls was completed. Also in the early weeks following the start-up, failures of tubes in the powerhouse boilers restricted production for the equivalent of four additional days. Thus, what was scheduled as a 21-day shutdown for maintenance, in fact, turned out to be the equivalent of 36 days without production. The lost 15 days deprived the company of revenues of approximately $7 million.

The new bucketwheel excavator placed in service about a year ago did not perform as well as anticipated. When operating properly, the wheel gives every indication of being capable of mining the quantities of overburden expected of it. This potential has not been realized, however, due to design deficiencies and component failures and the manufacturer is working with the company to correct the problems.

Since operations began in 1967, mining has proceeded in a westerly direction from the Athabasca River. During the year, the upper mine face reached the westerly limits of the lease, and digging began in a northerly direction. The change required substantial time for equipment adjustment, with conveyors on the top bench being.

dismantled and relocated. This resulted in some days of lowered production. The lower mining bench will pivot northward about mid-1978.

In the process area, construction began on the $7.1 million back-up system to the sulphur plant. The addition was undertaken so that if the main sulphur plant should break down, synthetic crude production could be maintained while still meeting environmental protection requirements 100 per cent of the time. Completion is expected in 1978.

Early in 1977, charges that the company had contravened the Federal Fisheries Act (one count) and the Alberta Clean Air Act (six counts) were dismissed by an Alberta court. Subsequently, the Crown appealed the acquittal of the charge under the Federal Fisheries Act and two charges under the Alberta Clean Air Act. Late in the year, the appeal under the Clean Air Act was denied and on January 10, 1978, the appeal under the Fisheries Act also was denied.

The future

As in 1977, the company's major goal for 1978 continues to be the highest possible level of production consistent with good operating practices. In 1978, your company will benefit from the government-sanctioned $1 per barrel general crude price increase which went into effect January 1.

Capital spending during 1978 will be about $30 million with substantial portions of this amount earmarked to improve operating reliability and production. Among the major expenditures are $3.7 million to cover various projects aimed at improving bitumen recovery in the extraction plant. Included are a major instrument rehabilitation program as well as miscellaneous improvements designed to increase operating efficiency.

With the direction of the mine face swinging to the north and the opening of a new auxiliary mining area, projects were started in 1977 to extend the conveyor system and to build a new permanent plant access road. With the completion of the new permanent road, the present temporary plant access road will be closed. Additional capital funds of $9.1 million for the conveyor and $2.4 million for the road have been allocated for 1978.

A $1.6 million program to upgrade the GCOS crude pipeline to Edmonton and install remote monitoring equipment is planned for this year. In the event of a pipeline break this equipment will help protect the environment by providing increased early warning capability and by assisting in more quickly finding the rupture location.

Employee housing will require capital expenditures of $4.1 million in 1978.

A current study on the implications and costs of moving up to the company's licensed capacity of 65,000 barrels of synthetic crude daily is expected to be completed in 1978. Any decision to increase the plant's capacity will be made in the light of the capital costs and the potential benefits which would accrue to your company.

If GCOS were to receive world prices from the Federal government and a lower royalty rate from the Province of Alberta with respect to its output, the economics of the expansion under investigation would undoubtedly improve. However, at present we do not know if they would improve sufficiently to make expansion economic. Discussions on both these matters are being held with the Federal government and the Province of Alberta.

In the light of Syncrude Canada Limited receiving world prices for its production, we believe that it is only equitable that GCOS receive similar treatment whether we expand or not. Over the past decade, the company has made a significant contribution to the present level of oil sands technology, taking substantial risks in doing so and incurring a deficit of $54.3 million.

The long-awaited first production from the Syncrude Canada Limited project is expected to take place about mid-1978. This second milestone in oil sands development promises to highlight a number of issues as well as provide potential benefits for your company.

One such benefit lies in areas of possible co-operation between the two plants. Each company should be able to support the other in handling emergency situations. Already the two companies are jointly funding, at the University of Saskatchewan, a research project which is studying the flow rate and pipe diameters associated with pumping systems used to handle liquids containing various percentages of solids. This work has important ramifications with respect to tailings handling.

In community life, Syncrude personnel will be able to join with GCOS employees in bringing additional skills, interest and concern to the development of Fort McMurray. Doubtless, completion of the Syncrude construction phase and start-up of production will help restore a more stable environment to the town.

There are, of course, some potential problems. It will, for example, be advantageous for each company to co-ordinate with the other the timing of maintenance shutdowns so that the demand on the necessary industrial skills will not become excessive.

GCOS must constantly be alert to ways and means of developing its human resources in the most purposeful and effective way possible. To this end, the company will continue to use a program begun in 1976. Called the Organizational Renewal Program, its implementation saw a reorganization of responsibilities to define more manageable positions and the scope of authority associated with those positions. As well there was a greater commitment to problem-solving through a team approach. In 1977, this program had as its objective continued emphasis on team building and the recruitment of competent, experienced personnel.

The Organizational Renewal Program has been well received by employees and we want to take this opportunity to thank them for their co-operation and efforts in making it a success. As well the dedication in 1977 of all employees to achieving company objectives is appreciated.

Finally, we want to acknowledge the significant contribution of W. Harold Rea and the late J. Grant Spratt, both of whom retired from the company's Board of Directors in 1977. They served your company with dedication for more than a decade and played a major part in its development and progress.

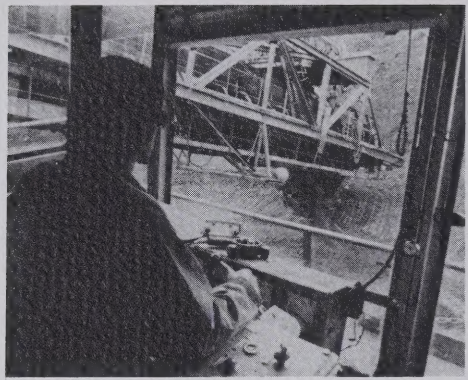
K. F. Heddon

K. F. Heddon

S A. Cowtan

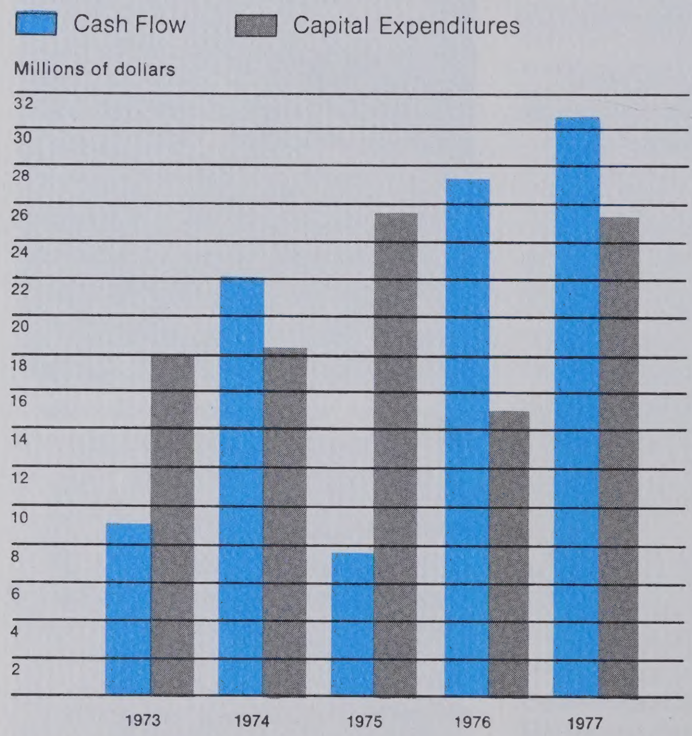
S A. Cowtan

February 9, 1978

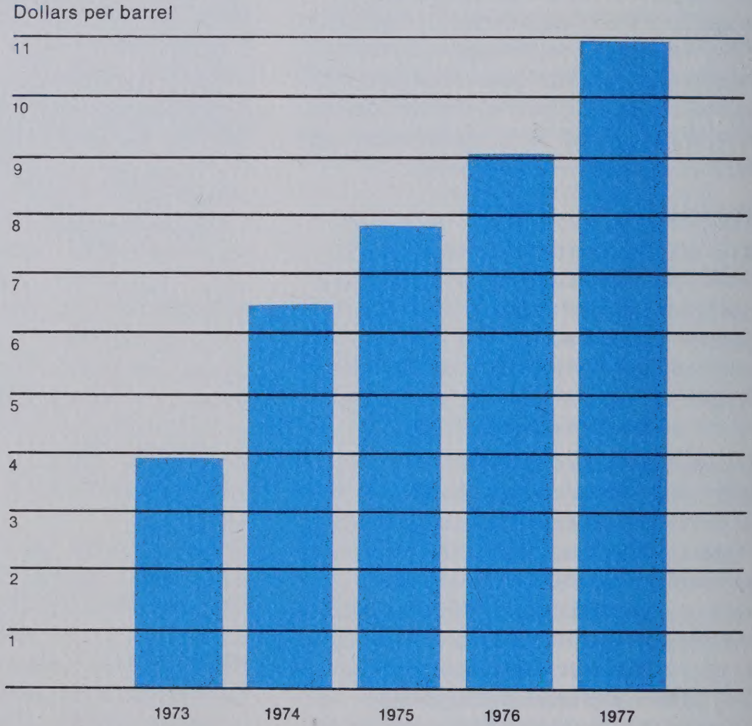


Al Lydom, senior operator, Mine, deftly guides bucketwheel excavator across oil sand face.

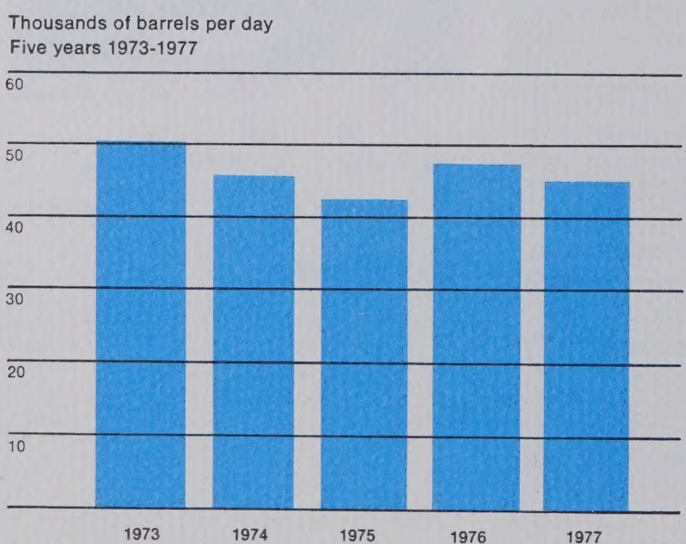
Cash Flow from Operations vs. Capital Expenditures

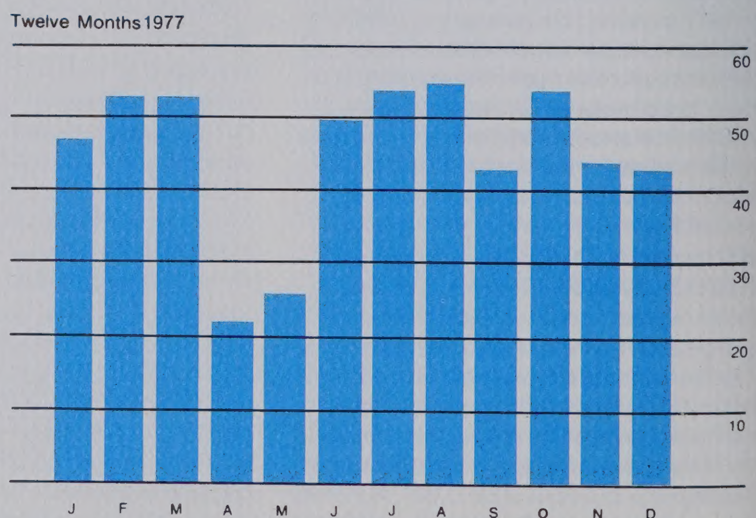


Average Selling Price per Barrel of Synthetic Crude



Synthetic Crude Production





SPECIAL REPORT

GCOS and the Environment

During 1977, your company continued its efforts to meet its responsibilities toward protecting the environment. These efforts went forward on several fronts. In 1978, some $5 million in capital will be spent on environmental protection projects and continuing research studies. The following developments are of special interest.

1. The establishment of an Environmental Affairs Department to ensure that the company's policy of meeting environmental regulations and the terms of its operating permits and licences is complied with. Three departmental sections — land, air and water — monitor the impact of the company's operation in their particular area of responsibility and maintain effective communication with all operating and technical departments.

2. The year 1977 was the seventh in the company's land reclamation program with 17,500 trees being planted. To date, some 300 acres have been revegetated. This program will involve the planting of some 20,000 trees, plants and bushes in 1978.

3. The funding of a project with the University of Calgary to investigate the use of bacteria to improve the treatment of waste water.

4. A study, funded over several years by the company at McGill University, involving basic research into the chemistry of sludge and the means to speed sludge settling in tailings ponds.

5. The continuation of yearly studies investigating the effect of sulphur dioxide emissions on soils and vegetation within a seven-mile radius of the plant. The 1976 study received from the consultant in early 1977 indicated some minor stress from sulphur dioxide to vegetation near the plant. This was the first indication of any stress noted since the plant was dedicated ten years ago. Although the full report from the consultant for the 1977 study has not yet been received, preliminary information indicates that there is no sulphur dioxide stress in the area. The situation is being watched carefully and the area in question will be monitored again in a 1978 study. These studies help the company determine the action to be taken to protect the environment.

6. For 1978, nearly $2 million have been earmarked to improve equipment used to remove particulates from the boiler house stack and to investigate other means to reduce particulate emissions.

A

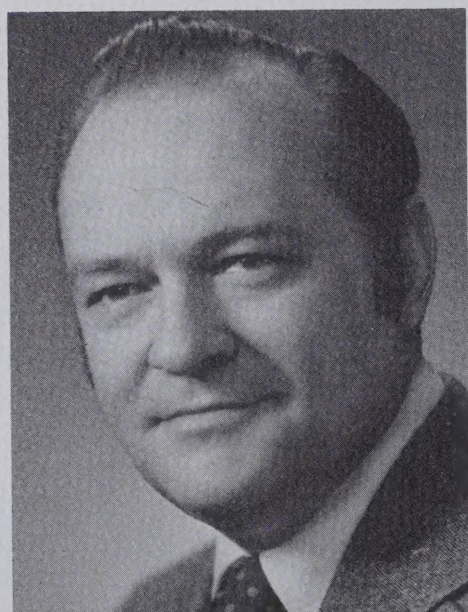
A. Al Fraser, Laboratory Unit Leader, places a new "candle" in an air monitoring station, one of 40 surrounding the plant. The old "candle" is analyzed by the laboratory for traces of hydrogen sulphide and total sulphur.

B. Employees plant shrubs on tailings pond dyke. GCOS personnel planted 17,500 seedlings in 1977 as part of the company's forestation program.

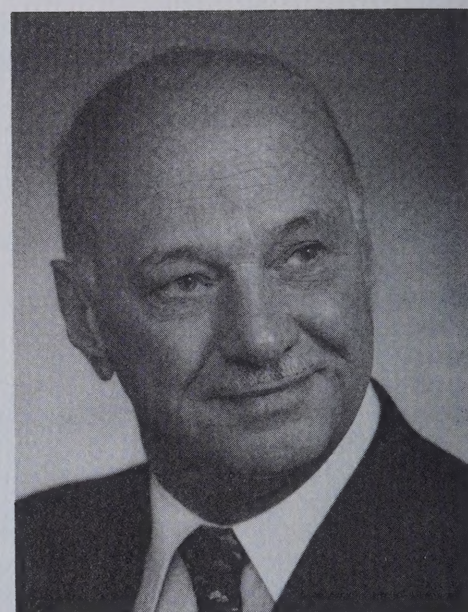
B

New Directors elected in 1977

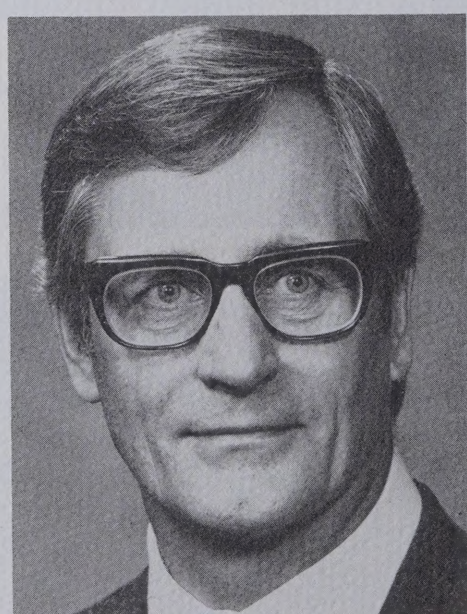
Four new directors were elected to the company's Board of Directors in 1977. They filled two newly-created seats on the Board and replaced W. Harold Rea and the late J. Grant Spratt, who retired. The election of these gentlemen increases the number of directors from outside the Sun Group of Companies and the number of directors from Alberta.



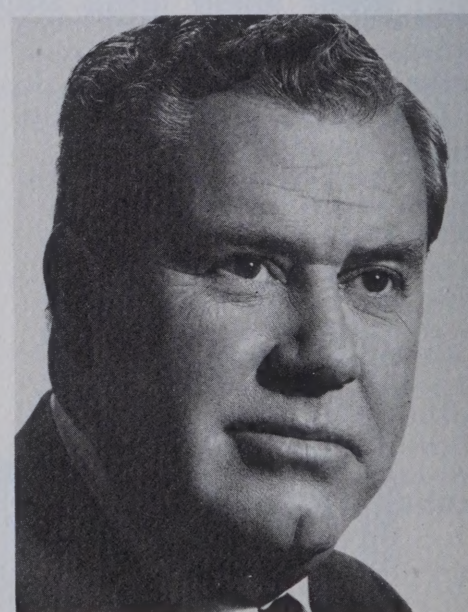
Ross A. Hennigar
President
Sun Oil Company Limited
Toronto, Ont.



F. Newton Hughes
Chairman, Board of Directors,
Capwest Capital Services Ltd.
Edmonton, Alta.



John E. Poole
Former Co-Chairman, Board of Directors, Poole Construction Limited
Edmonton, Alta.



Bruce W. Watson
President,
Canadian Homestead Oils Limited
Calgary, Alta.

Great Canadian Oil Sands Limited
and Subsidiaries

Statement of Performance *for the year ended December 31*

	1977	1976
	(Thousands of dollars)	
Revenues		
Sales and other operating	**$178,685**	$158,288
Interest	**1,873**	1,539
	180,558	159,827
Expenses		
Overburden removal (note 3)	**12,225**	14,014
Plant operations	**89,226**	73,241
Depreciation (note 3)	**9,966**	10,817
Amortization of deferred preproduction costs	**1,900**	2,024
Crown royalty	**21,846**	19,464
Lease royalty (notes 9 and 11)	**7,614**	6,758
Administrative and general	**10,944**	9,388
Interest (note 4)	**5,456**	6,929
Income tax provision	**9,996**	8,180
	169,173	150,815
Profit before extraordinary item	**11,385**	9,012
Extraordinary item (note 5)	**1,532**	2,950
Net profit	**$12,917**	$11,962

See accompanying notes

Auditors' Report

To the Shareholders of Great Canadian Oil Sands Limited

We have examined the consolidated statement of financial position of Great Canadian Oil Sands Limited and subsidiaries as at December 31, 1977 and the consolidated statements of performance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1977 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants
Edmonton, Canada
January 24, 1978

Great Canadian Oil Sands Limited
and Subsidiaries

Statement of Financial Position *as at December 31*

	1977	1976
	(Thousands of dollars)	
Cash and items convertible to cash within one year		
Cash	**$ 486**	$ 92
Amounts due from: customers	**15,648**	7,185
affiliated companies	**—**	3,750
others	**1,408**	3,178
Inventories: finished product	**4,661**	3,395
materials and supplies	**15,586**	13,316
Prepaid charges	**1,405**	1,944
	39,194	32,860
Deduct: Liabilities payable within one year		
Short-term borrowings	**11,100**	20,433
Amounts due to: suppliers	**17,737**	15,606
affiliated companies	**1,045**	264
others	**6,191**	4,546
Taxes other than income taxes	**359**	551
Current portion of long-term borrowings	**2,519**	2,551
	38,951	43,951
Working Capital (Deficiency)	**243**	(11,091)
Add: Other assets		
Properties, plant and equipment (note 6)	**194,754**	187,578
Housing (note 6)	**36,962**	34,052
Expenses for the benefit of future years:		
Deferred preproduction costs	**50,146**	52,046
Deferred overburden removal costs (note 3)	**29,640**	25,348
	311,502	299,024
Working Capital and other assets	**311,745**	287,933
Deduct: Liabilities payable beyond one year		
Notes (note 7)	**36,563**	38,714
Mortgages on housing (note 7)	**24,578**	19,996
Deferred income taxes	**13,694**	5,230
	74,835	63,940
Shareholders' Equity	**$236,910**	$223,993
Shareholders' Equity consists of:		
Paid-in capital (note 8)		
Preferred shares	**$165,000**	$165,000
Common shares	**126,232**	126,232
	291,232	291,232
Deficit		
Beginning of year	**(67,239)**	(79,201)
Net profit for the year	**12,917**	11,962
End of year	**(54,322)**	(67,239)
	$236,910	$223,993

See accompanying notes

On behalf of the Board
K. F. Heddon, Director
D. M. McGeer, Director

Statement of Changes in Financial Position *for the year ended December 31*

	1977	1976
	(Thousands of dollars)	
Source of Working Capital		
Profit before extraordinary item	**$ 11,385**	$ 9,012
Add back (deduct) items not affecting working capital:		
Extraordinary item (note 5)	**1,532**	2,950
Depreciation (note 3)	**9,966**	10,817
Amortization of deferred preproduction costs	**1,900**	2,024
Deferred overburden removal costs (note 3)	**(2,487)**	(3,076)
Loss (gain) on disposals of plant, equipment and housing	**(284)**	233
Deferred income taxes	**8,464**	5,230
	30,476	27,190
Disposals of plant, equipment and housing	**3,770**	3,621
New mortgages payable on housing	**5,276**	2,204
Additions to Working Capital	**39,522**	33,015
Use of Working Capital		
Purchases of properties, plant and equipment	**19,035**	10,895
Housing	**6,308**	4,229
Notes and mortgages payable maturing within one year	**2,845**	4,853
Reductions in Working Capital	**28,188**	19,977
Net Increase in Working Capital	**11,334**	13,038
Working Capital (Deficiency)—beginning of year	**(11,091)**	(24,129)
Working Capital (Deficiency)—end of year	**$ 243**	$ (11,091)
Analysis of the Change in Working Capital		
Cash	**$ 394**	$ 49
Amounts due from customers, affiliated companies and others	**2,943**	(702)
Inventories	**3,536**	264
Prepaid charges	**(539)**	(2,043)
Short-term borrowings	**9,333**	19,227
Amounts due to suppliers, affiliated companies and others	**(4,557)**	(6,917)
Taxes other than income taxes	**192**	3,263
Current portion of long-term borrowings	**32**	(103)
Net Increase in Working Capital	**$ 11,334**	$ 13,038

See accompanying notes

Notes to Consolidated Financial Statements

December 31, 1977

1. Summary of significant accounting policies

a) Consolidation—
The accompanying financial statements are prepared on a consolidated basis to include the accounts of all subsidiaries.

b) Inventories—
Inventories are valued at the lower of average cost and estimated net realizable value.

c) Depreciation and amortization—
Properties, plant and equipment capitalized after January 1, 1976 are depreciated over the lesser of their useful lives or the life of estimated reserves, except that the cost of equipment relating to the mining operation is, with specific exceptions, expensed as incurred. All production facilities capitalized prior to January 1, 1976 are depreciated on the basis of estimated reserves.
Rental housing, mobile equipment and furniture and fixtures are depreciated over their estimated useful lives.

Hugh Stroud, senior operator in Extraction's Plant 4 control room, completes a daily report of operations.

Deferred preproduction costs are amortized on the basis of estimated reserves. Overburden removal costs are amortized on the basis of the ratio of total overburden to oil sands reserves. Deferred overburden removal costs will increase or decrease when the ratio of overburden removed to oil sands mined, in the current year, exceeds or is less than the forecast average ratio.

d) Maintenance, repairs and shutdown expenses—
Normal maintenance and repairs are charged to expense as incurred. The cost of major maintenance shutdowns is estimated and accrued over the period between each shutdown.

e) Income tax provision—
Some costs and revenues may by law be deducted or added in calculating taxable income in years later or earlier than actually recorded in the financial statements. The income tax provision is based upon the revenues and expenses actually recorded, but differs from taxes actually paid or payable, if any. In the long run these differences between taxes actually payable and amounts expensed in respect of taxes would tend to disappear, but year by year there are imbalances, shown in the statement of financial position as deferred income taxes.

2. Estimated reserves

For the purpose of determining the amounts of certain depreciation and amortization in the accounts, the remaining reserves of synthetic crude oil at December 31, 1977 have been estimated at approximately 437,000,000 barrels. The actual quantity capable of economic recovery will depend in part upon the future relationship between synthetic crude selling prices and costs.

3. Deferred overburden removal costs

	1977	1976
Outlays during the year	$14,712,000	$17,090,000
Overburden removal expensed	12,225,000	14,014,000
	2,487,000	3,076,000
Depreciation on equipment for the year	1,805,000	1,560,000
Balance—beginning of year	25,348,000	20,712,000
Balance—end of year	$29,640,000	$25,348,000

The above depreciation on overburden removal equipment is not included in depreciation expense of $9,966,000 (1976—$10,817,000).

4. Interest expense

	1977	1976
Short-term borrowings	$1,264,000	$2,809,000
Notes and mortgages	4,192,000	4,120,000
	$5,456,000	$6,929,000

5. Extraordinary item

The extraordinary item represents the reduction of income taxes resulting from the application of $1,532,000 in Alberta income tax rebates brought forward from prior years. Such rebates may be credited only against Alberta income taxes otherwise payable. As of December 31, 1977, unapplied rebates carried forward amount to approximately $500,000.

6. Properties, plant and equipment, and housing

a) Properties, plant and equipment —
These are at cost, less accumulated depreciation of $71,837,000 in 1977 and $63,101,000 in 1976.

	1977	1976
b) Housing—		
Lots, rental housing and housing under construction, at cost, less accumulated depreciation of $1,798,000 in 1977 and $1,321,000 in 1976	$19,487,000	$19,470,000
Agreements for sale receivable, at the lower of cost or selling price of houses sold, less principal payments received to date and less principal due within one year.	17,475,000	14,582,000
	$36,962,000	$34,052,000

7. Liabilities payable beyond one year

a) Notes —
These are 5¾% notes in U.S. currency maturing July 1, 1991 repayable $2,000,000 in U.S. currency annually. The total principal amount outstanding at December 31, 1977 is U.S. $36,000,000, of which U.S. $34,000,000 are payable beyond one year. Translation into Canadian currency is on the basis of the exchange rate at the date of issue of $0.93 U.S. to $1.00 Canadian.

b) Mortgages on housing —
These mortgages are repayable over terms up to 30 years and bear interest at rates ranging from 6¼% to 11¾%. The estimated principal repayments required on the non-current portion of mortgages payable at December 31, 1977 are as follows:

1979	$ 336,000
1980	357,000
1981	371,000
1982	384,000
Subsequent	23,130,000
Total	$24,578,000

8. Paid-in capital

There have been no changes in paid-in capital during the year. The common shares are without nominal or par value and the issued preferred shares are 7% non-cumulative redeemable (at par) voting shares having a par value of $100 each.

	Authorized Shares	Issued Shares
Preferred:		
First	500,000	500,000
Second	500,000	500,000
Third	450,000	450,000
Fourth	550,000	200,000
Total	2,000,000	1,650,000
Common:	35,000,000	28,504,259

All of the preferred shares and 96.1% of the common shares are owned by Sun Company, Inc.

9. Commitments and contingent liabilities

a) The company is a party to an agreement with Sun Oil Company Limited and CIGOL International Ltd. involving the sublease of Bituminous Sands Lease No. 86 in respect of which the company is operating its plant. Lease No. 86 runs for a term of 21 years from June 1, 1966, renewable for further terms each of 21 years subject to such terms and conditions as may be prescribed. The company is obligated under the provisions of the agreement to pay Sun and CIGOL a basic royalty of 10 cents per barrel of bitumen extracted or recovered from bituminous sands from the leased land together with an additional royalty of 25% of synthetic crude revenues in excess of $2.75 per barrel (declining to $2.60 in the future under certain conditions) and subject to a 50% increase in both royalties after the company's cash flow has equalled its total initial investment. Such royalties are payable 75% to Sun and 25% to CIGOL (see note 11 re waiver by Sun). Also, under this agreement the company has assumed an indebtedness to the Government of Canada of $1,802,107 in respect of certain wartime expenditures in the Athabasca oil sands area. Principal payments on this debt have been deferred on an interest-free basis until late 1978. As the company hopes to obtain relief from this debt, it has not been recorded in the accounts of the company.
The company is also a party to an agreement with Chevron Canada Limited involving Bituminous Sands Lease No. 23A which the company is currently mining. Under the provisions of this agreement Chevron is entitled to a gross overriding royalty of 3% of the amount received by GCOS for synthetic crude oil sold, attributable to bituminous sands from the lease.

b) Under the provisions of the sale agreements covering the sale of housing units to employees the company has undertaken, in the event of an employee termination within up to eight years of the date of the sale agreement, to repurchase the employee's housing unit. The potential net outlay under such repurchase commitments is the principal amount paid by the employee to the date of termination plus a portion of any increase in replacement costs between the effective dates of sale and repurchase. The aggregate of such principal amounts paid by employees to December 31, 1977 approximates $2,500,000 but any additional potential outlay resulting from increases in replacement costs cannot be determined until an employee actually terminates employment.

c) The company is a party to long-term agreements with Sun Oil Company Limited and with Shell Canada Limited pertaining to the sale of synthetic crude oil.

d) The company's unfunded prior service pension liability at December 31, 1977 is estimated at approximately $1,400,000. This amount will be funded and charged to income over the next twelve years.

10. Directors and officers

Fifteen persons were directors of the company during 1977, only certain of whom were paid as such, and their remuneration aggregated $22,700.
Eleven persons were officers during 1977, only certain of whom were paid as such; remuneration of officers aggregated $431,300. Seven officers were also directors.

11. Lease royalty waiver

Sun Oil Company Limited has waived, effective April 1, 1970, the royalties to which it is entitled under the agreement described in Note 9(a) until the elimination of the company's deficit account or a determination that the financial results from the company's operations are satisfactory. The reduction in costs due to this temporary relief is $13,071,000 in 1977 (1976 — $16,635,000).

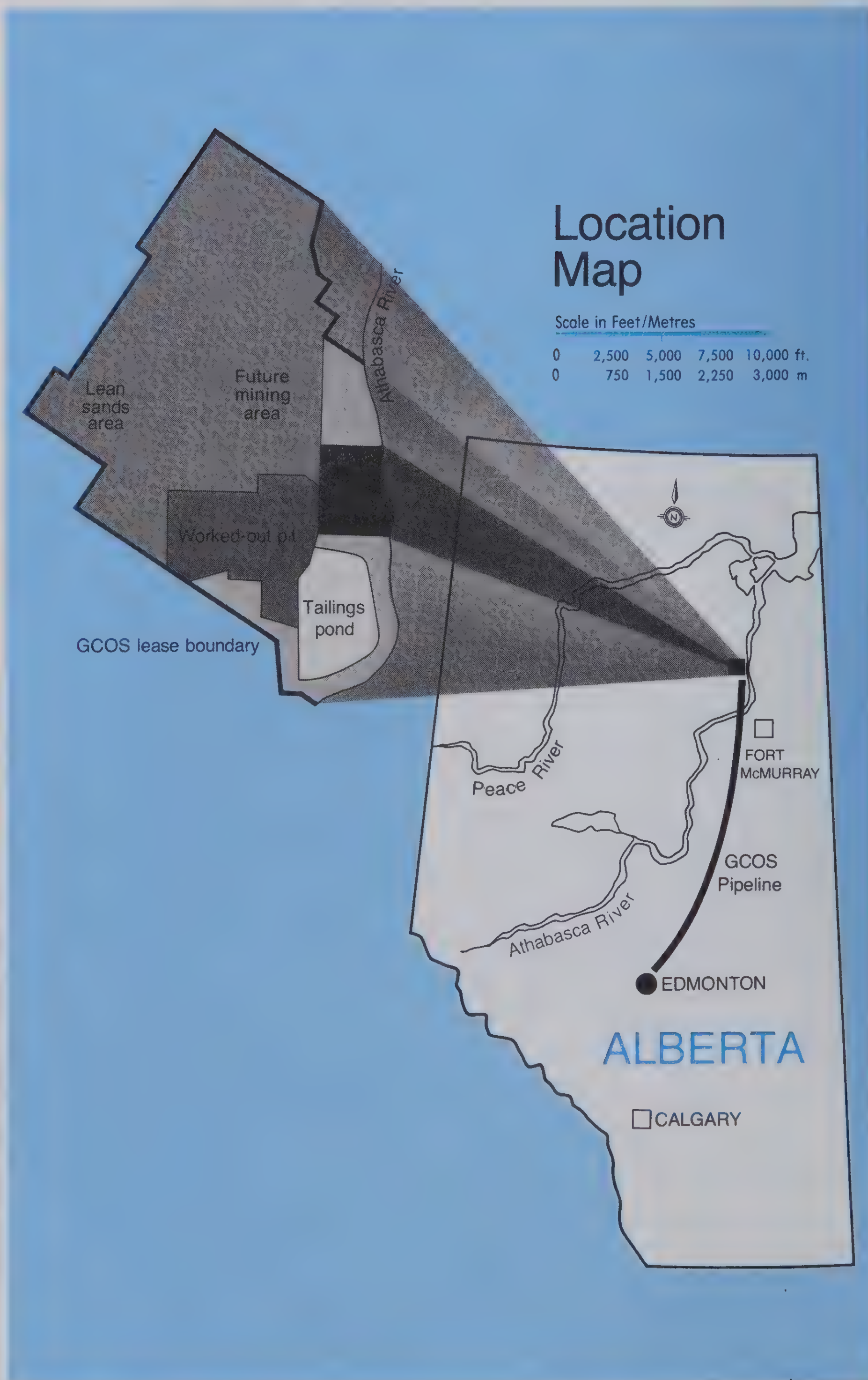
Shrubs used in the forestation program are tagged for identification. The ones responding best to dyke conditions are noted for possible future planting.

12. Preferred share dividends and earnings per share

No dividends have been declared or paid to date on the $165,000,000 of 7% non-cumulative preferred shares. Were a deduction made for a full annual dividend of $11,550,000 on the outstanding preferred shares, the earnings per common share would be as follows:

	1977	1976
Profit (loss) per share before extraordinary item	$(0.01)	$(0.09)
Net profit per share	0.05	0.01

"Basic earnings" per common share, which are computed without deduction for preferred share dividends (since none have been declared), are as follows: Profit per share before extraordinary item: 1977 — $0.40; (1976 — $0.32). Net profit per share: 1977 — $0.46; (1976 — $0.42).



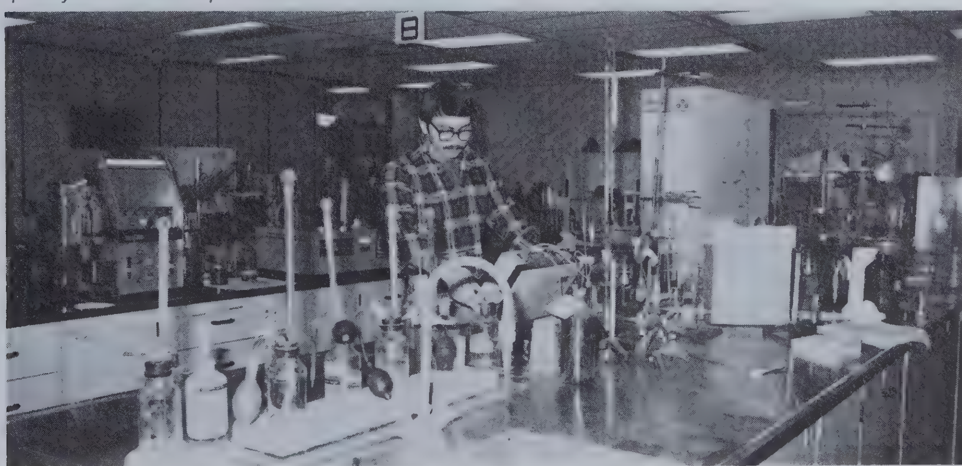
Glen Teasdale, Laboratory Technician IV, runs a routine quality control analysis using an atomic absorption spectrophotometer.

Financial and Operating Summary

	1977	1976	1975	1974	1973
			(Dollars in thousands)		
Financial					
Revenues	**$180,558**	$159,827	$124,434	$108,128	$73,231
Expenses	**169,173**	150,815	128,075	100,977	75,548
Profit (loss) before extraordinary item	**11,385**	9,012	(3,641)	7,151	(2,317)
Extraordinary item	**1,532**	2,950	2,650	4,882	—
Net profit (loss) for the year	**12,917**	11,962	(991)	12,033	(2,317)
Items not affecting working capital	**17,559**	15,228	8,715	10,005	11,463
Cash flow from operations	**30,476**	27,190	7,724	22,038	9,146
Shareholders' equity:					
Paid-in capital	**291,232**	291,232	291,232	291,230	291,229
Deficit	**(54,322)**	(67,239)	(79,201)	(78,210)	(90,243)
Capital expenditures	**25,343**	15,124	25,456	18,531	18,069
Operating					
Overburden removed (thousands of cubic yards)	**11,946**	12,051	10,071	9,973	10,064
Oil sands mined (thousands of short tons)	**35,295**	36,068	32,712	34,522	36,066
Synthetic crude sold (thousands of barrels)	**16,394**	17,510	15,651	16,473	18,382
Sulphur produced (thousands of long tons)	**92**	97	74	86	95
Number of employees* — year-end	**1,527**	1,487	1,338	1,402	1,100

**In addition, substantial employment is provided at the plant by companies supplying contracted services to GCOS.*

Laboratory is responsible for quality control of plant production as well as involvement in environmental protection monitoring. Here, Roy Brown, Laboratory Technician I, meters quality of GCOS oil products.



Committees of the Board of Directors

The Board of Directors is always striving to improve its effectiveness in carrying out its responsibilities. A significant step was taken in 1977 with the creation of three committees of the Board: Audit; Manpower and Board Policy; and Public Affairs Policy. Each committee acts as the eyes and ears of the full Board in its particular area of responsibility. The Audit Committee is composed only of directors, the majority of whom are not officers of the company. The Manpower and Board Policy Committee and the Public Affairs Policy Committee have, in addition to directors, members who are not directors, but who have a particular expertise that will be helpful to the committee. A brief description of the committees' roles and the names of the members follow.

Audit Committee

Members are: Kenneth F. Heddon, chairman; F. Newton Hughes, John E. Poole, Bruce W. Watson and Ardagh S. Kingsmill, secretary.

The responsibilities of this committee have a twofold thrust. One is to assist the Board of Directors in fulfilling its fiduciary responsibility regarding the accounting and reporting practices of the company and ensuring that the financial reporting of the performance of the company to shareholders and others is open and informative. The second is to provide the external and internal auditors of the company with full and direct access to the Board of Directors in order to preserve the auditors' independence in their relationship with management.

Manpower and Board Policy

Members are: Ross A. Hennigar, chairman; Gordon E. Hillhouse, F. Newton Hughes, Bruce W. Watson and Clifford K. Boland, secretary. Dudley M. McGeer is a member with respect to Board policy only.

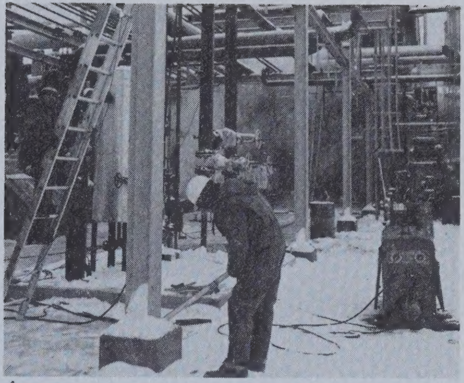
Concerning manpower, the role of this committee is to ensure that the company has effective manpower development and compensation programs; to review with the president the performance of the senior managers, as well as to evaluate the performance of the president.

Concerning Board policy, its function is to recommend timely changes in role, composition and structure of the Board; to formulate criteria and guidelines for adoption by the Board governing and regulating its affairs; and to recommend candidates for directorship.

Public Affairs Policy

Members are: Howard B. Maxwell, chairman; John E. Poole, William S. McGregor and William L. Oliver, secretary.

This committee's role is to assess the company's performance as a corporate citizen and to suggest ways and means by which it can be improved; to ensure that the company's operating practices take the public interest fully into account; to see that company actions are communicated to its various publics; and to apprise the Board of the status of the company's relationship with its publics.



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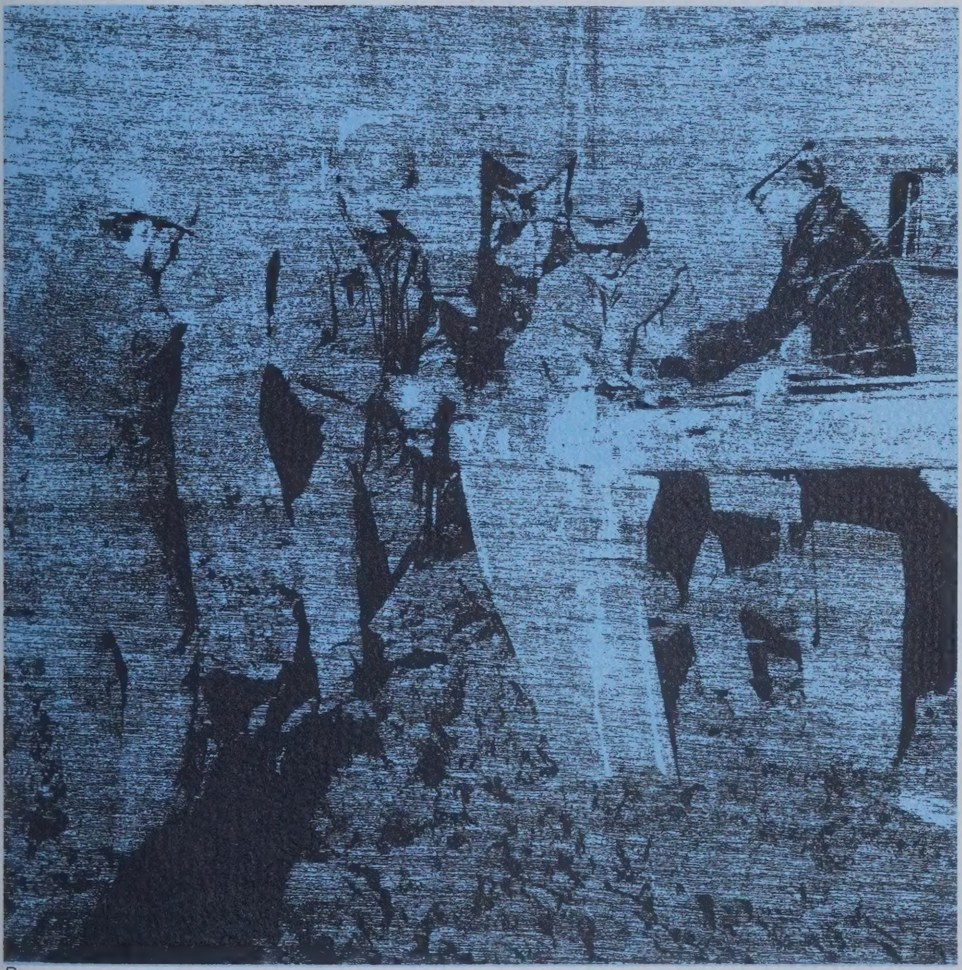


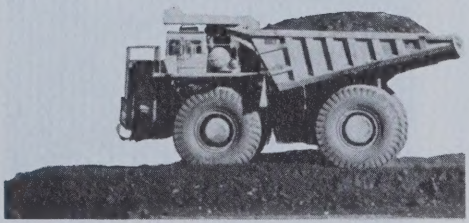
B

A — Construction crew works on pipe rack of $7.1 million back-up system to sulphur plant. The addition will enable synthetic crude production to be maintained while meeting environmental protection requirements.

B — Crew sets explosives in blasting program that prepares oil sand for winter mining. Blasting admits air, which acts as an insulator, and inhibits freezing in intense winter cold.

C — Material handling is one of the largest activities at the GCOS plant. Here a 150-ton truck carries material for tailings dyke construction.

D — Joe Camp, vice president Operations, (left) visits with Josef Pfisterer (centre) Group Leader, Process Operations and Ronald Melnyk, Process Operations.



C

D

E — Among the many groups touring GCOS have been the Indian Association of Alberta. Lynda Costello, pointing, then in the Public Affairs Department, guided Association members around the plant and mine.

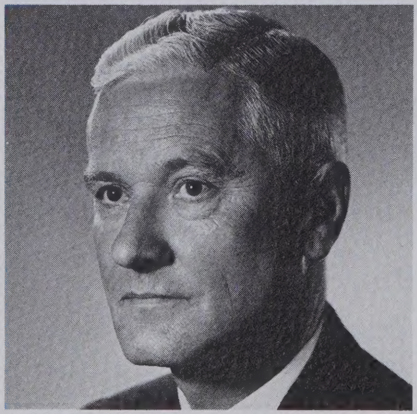
F — John Steppan, operator, Extraction Plant, checks instruments monitoring extraction operations.

G — An extensive inventory of stores is needed to keep the plant functioning properly. Henry Couture, senior storeman, Materials Management, checks supplies.

H — One of the GCOS fire crews, during a recent training session, battles a hydrocarbon fire. Training is given in all areas of fire control.

E

W. HAROLD REA



J. GRANT SPRATT

Tribute to Retiring Directors

W. HAROLD REA, Chairman of the Board of Directors, retired from the Board last year following 14 years of service. Mr. Rea brought to GCOS a vast background of experience in all aspects of the Canadian oil industry and an abiding interest and faith in the oil sands as a source of petroleum energy for Canada in the years ahead.

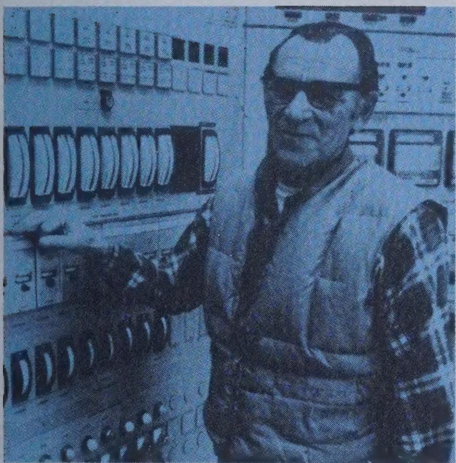
He recognized that oil sands development was high risk and long argued that investors in oil sands projects required adequate incentive if acceptance of the challenge was to be justified. On this point his observations concerning GCOS have been particularly eloquent and clear.

Outside the oil industry, his work on behalf of others, particularly young people, has been widespread. He served as National President of the National Council of YMCAs of Canada for a number of years. Prime Minister Trudeau appointed Mr. Rea, in 1968, as Chairman of The Task Force On Sports for Canadians. From 1969 to 1975, he was Chairman of Canada's Sports Hall of Fame — and for his activities in the field of sport he was inducted into Canada's Sports Hall of Fame (Builder Category) in August of 1976. In the field of education, Mr. Rea was a member of the Advisory Committee of the School of Business Administration, University of Western Ontario at London, Ontario for twenty years — and for the five-year period, 1964 to 1968, served the School of Business Administration in the capacity of visiting professor.

Mr. Rea was Chairman of the National Division of Finance of the United Church of Canada from 1966 to 1972, having served as a member since 1952.

J. GRANT SPRATT, who died January 29, 1978 following a lengthy illness, joined the GCOS Board of Directors in 1964 and brought to your company a long and distinguished career in conventional oil and gas exploration and development. A geologist by profession, Mr. Spratt was president of Anglo Canadian Oil Company Limited, Trans Mountain Oil Pipe Line Company and Triad Oil Company Limited before he became a petroleum consultant in Calgary. He not only contributed significantly to conventional oil development in Canada, but through his years of service on the GCOS Board to oil sands development as well.

In addition to his achievements in the oil industry, Mr. Spratt was active in the Alberta Branch of the Canadian Arthritis and Rheumatism Society, serving as both president and board member. He also served on the Board of Stewards of Knox United Church, Calgary. He held honorary life memberships in the Canadian Petroleum Association and the Association of Professional Engineers, Geologists and Geophysicists of Alberta.



F

H

G

Parent Company
Sun Company, Inc.
Radnor, Pennsylvania

Sudsidiary Companies
Athabasca Realty Company Limited
Fort McMurray and Edmonton, Alberta
Employee Housing

Great Canadian Oil Sands Supply Limited
Fort McMurray and Edmonton, Alberta
Provision of materials and supplies

Associated Companies in Canada
Sun Oil Company Limited and its subsidiaries
Toronto, Ontario
Integrated petroleum company

Sperry-Sun of Canada Limited
Edmonton, Alberta
Well surveying and engineering services

Sunray DX Canada Oil Company
Calgary, Alberta
Exploration and production in Western Canada

A member of the SUNOCO Group of companies